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April 18, 2006

AGENDA ITEM 7-B

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Senate Bill 1168 (Chesbro)—
As Introduced

Rural Health Care Equity Program Extension

Sponsor: California State Employees Association

II. PROGRAM: Legislation

III. RECOMMENDATION: Support

This bill will continue to provide assistance to CalPERS state members in under-served areas by extending the operation of the Rural Health Care Equity Program.

IV. ANALYSIS:

This bill extends the operation of the Rural Health Care Equity Program through January 1, 2012.

The Rural Health Care Equity Program provides subsidies to assist state enrollees with the cost of deductibles and copayments in regions where there is no Health Maintenance Organization (HMO) available.

Background

The Rural Health Care Equity Program, established in 1999 by Chapter 743, provides subsidies and reimbursements for health care costs incurred by state employees and annuitants that live in rural areas of California. A "rural area" is defined as an area without a CalPERS Board-approved HMO plan. The program is set to expire on January 1, 2008.

The Department of Personnel Administration currently administers the Rural Health Care Equity Program. Represented employees must bargain for the amount of the employer's contribution, and excluded employees receive the same amount.

Currently, the state contributes $1,500 per year on behalf of each employee eligible for the rural subsidy. Active employees receive the difference between the lowest cost Preferred Provider Organization (PPO) premium and the weighted-average HMO premium. They are also eligible to receive reimbursement for out-of-pocket expenses incurred by themselves and their dependents, such as copayments and deductibles. (The enrollee must submit claims to receive this reimbursement.) The total reimbursement amount, including the difference in premiums and the eligible out-of-pocket expenses, may equal up to $1,500 per year. Any funds not claimed are given to a bargaining unit pool which is then disbursed to employees of that bargaining unit who had out-of-pocket expenses in excess of $1,500 in that fiscal year.

Annuitants who are not enrolled in Medicare may submit a claim for reimbursement of health care expenses paid under the PPO deductible (for self and dependents), with total reimbursements not to exceed $500 per year. Annuitants who are enrolled in Medicare automatically receive reimbursement for the actual cost of Medicare Part B premiums, which is currently $88.50 per month. There is no reimbursement for Medicare premiums of dependents. Current law states that the maximum amount available for Medicare Part B premiums is limited to $75 per month.

The benefits received under the Rural Health Care Equity Program are subject to the availability of funds, which requires an appropriation in the annual budget act. The state does not consider these benefits a vested right, except as agreed to in an MOU for the time period covered by that MOU.

In December 2002, as part of his Mid-Year Spending Reduction Proposals, the Governor suggested that the Rural Health Care Equity Program no longer include reimbursements for annuitants as of January 1, 2003. The Department of Finance issued an executive order with this directive, but the Controller did not implement it. The Controller's legal counsel agreed with the Legislative Counsel, which found that the Governor could not eliminate appropriated funding for this program, without legislative approval. The law was amended to remove out-of-state annuitants from the Rural Health Care Equity Program effective July 1, 2003.

Proposed Changes

This bill extends the operation of the Rural Health Care Equity Program through December 31, 2011 (an additional four years) or until the CalPERS Board determines that health maintenance organization plans are no longer the most cost-effective plans offered by the board.

Legislative History

2004 Chapter 489 (AB 2759, Levine) – Prohibited a health plan or insurer that withdraws from a market area in California from doing business in that area for a period of five years after the date of withdrawal. The bill also required a health plan or insurer providing individual health insurance coverage that withdraws from a market area in California to continue providing coverage to

those individuals indefinitely. This content was removed from the bill. CalPERS' position: None

SB 126 (Chesbro) – Extended the Rural Health Care Equity Program from its expiration date of January 1, 2005 to January 1, 2008. This bill failed in committee but the language was then inserted into another bill which was successful (Chapter 214, SB 1105, Budget Committee). CalPERS' position: Support

2003 AB 363 (Garcia) – Directed the DMHC to adopt regulations that establish an extended geographic accessibility standard for access to health care in counties with a population of 500,000 or less and that have two or fewer HMOs providing coverage in the commercial market. The bill also required the HMOs to publicize and hold a public meeting when they plan to withdraw from a county with a population of 500,000 or less. This content was removed from the bill. CalPERS' position: None

AB 1756 (Chesbro) - Included changes to the RHCEP to amend the eligibility criteria for this program for out-of-state retirees. It stated that annuitants who become residents of a state other than California on or after July 1, 2003, are ineligible for the program. *CalPERS' position: None*

2002 SB 277 (Chesbro) – Would have made employees of the California State University eligible to participate in the Rural Health Care Equity Program. Failed in committee. CalPERS' position: Support

SB 1668 (Chesbro) – Would have increased the reimbursement available under the Rural Health Care Equity Program for annuitants that are not enrolled in Medicare from $500 to $1,000 per fiscal year. Annuitants that are enrolled in Medicare would have been eligible to receive a subsidy equal to the difference between the lowest cost PPO plan and the weighted-average HMO plan premiums. Failed in committee. CalPERS' position: Support

1999 Chapter 402 (AB 649, Machado) – Renamed the Rural Health Care Equity Program and provided a funding mechanism.

Chapter 743 (SB 514, Chesbro) – Established the Rural Health Care Equity Trust Fund, to be administered by DPA, to subsidize health care costs incurred by state employees and retirees in rural areas where there is no access to an HMO. CalPERS' position: Co-sponsor

1993 AB 630 (Cannella) – Would have provided a subsidy for active state members and reimbursement at the PERSCare premium rate for annuitants living in rural areas where there is no competitive HMO. Failed in Committee. CalPERS' position: Neutral

1990 Chapter 1251 (SB 2465, Green) – Provided a subsidy for the PERSCare premium for those state members and annuitants that live in areas where PERSCare is the only available health plan. CalPERS' position: Support

1989 Chapter 1338 (SB 1264, Green) – Established the employer contribution for state employees and annuitants that have no HMO option at 90 percent of the PERSCare rate for the 1989-90 contract year. CalPERS' position: Support

1988 Chapter 974 (AB 1903, Vasconcellos) – Appropriated in excess of $1 million from various funds to subsidize health insurance premium costs for state employees and retirees who live where there is no HMO option. CalPERS' position: Support

Issues

1. Arguments by Those in Support

   CSEA believes this bill is critical to maintain equity in the health coverage provided to members in rural and urban areas. The sponsor claims that approximately 7,000 state retirees do not have access to health care coverage options. Those members without an HMO option that currently benefit from the subsidy provided by the Rural Health Care Equity Program would be left with high out-of-pocket costs. This program reduces those out-of-pocket costs to the amount the individual would be paying if he or she were enrolled in an HMO. The sponsor further argues that the subsidy is particularly essential to those members who have been retired for some time, providing a safety net for retirees living on a lower fixed income.

   Sponsor: California State Employees Association

2. Arguments by Those in Opposition

   There is currently no known opposition.

3. The Rural Health Care Equity Program will not address underlying complicated rural access issues.

   According to the Legislative Analyst's Office (LAO), HMOs began withdrawing coverage from rural California because a combination of circumstances makes it difficult for them to operate profitably in such communities. Factors may include a residential population that is relatively expensive to insure, the inherent difficulty of distributing the risks and costs of health coverage to a smaller population base, shortages of health care providers, expensive medical practices that increase costs, and concerns over reimbursement rates for care paid by health care purchasers.

4. Legislative Policy Standards

The Board's Legislative Policy Standards suggest a support position on proposals that provide remedies for inequitable, unfair, or discriminatory benefits. The sponsor argues that the Rural Health Care Equity Program provides a remedy for inequitable health benefits among state employees and annuitants. SB 1168 will provide assistance to CalPERS members in under-served areas by extending the operation of the Rural Health Care Equity Program.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

This bill would extend the operation of the Rural Health Care Equity Program to January 1, 2012. Under current law, the benefits provided under this program would only be paid through the 2008 benefit year.

Program Costs

SB 1168 does not impact CalPERS' program costs. Funds provided by the Rural Health Care Equity Program offset the out-of-pocket costs that would otherwise be incurred by CalPERS members residing in rural areas.

The reimbursements provided by the Rural Health Care Program currently costs the state approximately $25.4 million per year. According to information gathered from DPA, the estimated maximum annual costs associated with the program are as follows:

$17,731,500—State Active Employees
$ 1,701,000—Non-Medicare Annuitants
$ 4,905,378—Medicare Annuitants
$24,337,878

In addition, administration for the program is estimated to be $1 million per year. Thus over a four-year period the total would be approximately $101.5 million. This amount is subject to fluctuation and may increase in the event of further HMO withdrawals from rural areas. Terminating the program would not eliminate these costs; rather termination would result in a cost-shift back to CalPERS members residing in rural areas.

Administrative Costs

CalPERS performs support services for the administration of the Rural Health Care Equity Program. By extending the program, this bill would prevent minor administrative savings that would have resulted from the termination of the program.

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